

**REPORT OF THE AUDIT OF THE  
MERCER COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Milward Dedman, Mercer County Judge/Executive

Honorable John D. Trisler, Former Mercer County Judge/Executive

Members of the Mercer County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements.

We engaged Percy and Gray, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Percy and Gray, PSC, evaluated the Mercer County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MERCER COUNTY FISCAL COURT**

**June 30, 2009**

Peercy and Gray, PSC has completed the audit of the financial statements of Mercer County Fiscal Court for the fiscal year ended June 30, 2009. We have issued unqualified opinions on the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky.

#### **Financial Condition:**

The fiscal court had net assets of \$8,928,609 as of June 30, 2009. Of this amount the fiscal court had unrestricted net assets of \$4,541,550. The fiscal court had total debt principal on June 30, 2009 of \$5,813,605 with \$361,295 due within the next year.

#### **Report Comments:**

- 2009-01 Reconciled Cash Balance For The General Fund Did Not Agree To the 4<sup>th</sup> Quarter Report
- 2009-02 The Fiscal Court Should Improve Purchase And Procurement Procedures
- 2009-03 Purchase Orders Should Be Prepared And Approved For All Expenditures Prior To Making Purchases
- 2009-04 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Bond And Construction Funds
- 2009-05 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules In Accordance With GASB 34 And Department For Local Government Requirements And Inventory Capital Assets Periodically
- 2009-06 All Checks Should Be Accompanied By Supporting Documentation Before Signing
- 2009-07 The Fiscal Court Lacks Adequate Segregation Of Duties Over Expenditure, Receipt, Payroll, And Reconciliation Processes
- 2009-08 All Invoices Should Be Paid Within Thirty Working Days As Required By KRS 65.140
- 2009-09 The Fiscal Court Should Annually Set And Approve Salaries For All County Employees And Require All Employees To Prepare Timesheets
- 2009-10 Monthly And Quarterly Reports Are Not Presented Timely
- 2009-11 Fiscal Court Minutes Should Be Signed, Timely Filed, And Reflect Events That Actually Occurred
- 2009-12 The General Fund Budget Does Not Agree With The Original Budget
- 2009-13 The Fiscal Court Should Record Encumbrances Correctly On The Quarterly Financial Statement
- 2009-14 Bonds Of Several Elected Officials And Employees Are Not On File With County Clerk

#### **Deposits and Investments:**

The fiscal court's deposits were insured and collateralized by bank securities.



<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT.....	1
MERCER COUNTY OFFICIALS.....	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	11
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	23
NOTES TO FINANCIAL STATEMENTS.....	25
BUDGETARY COMPARISON SCHEDULES .....	39
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION .....	43
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	47
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	51
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	55
COMMENTS AND RECOMMENDATIONS.....	43

APPENDIX A:

CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM







## **PEERCY AND GRAY, PSC**

**Certified Public Accountants**

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To the People of Kentucky

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Members of the Mercer County Fiscal Court

### Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of and for the year ended June 30, 2009 as listed in the table of contents. These financial statements are the responsibility of the Mercer County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Mercer County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of June 30, 2009, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has chosen not to present the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the financial statements. The budgetary comparison information is not a required part of the basic financial statements, but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mercer County, Kentucky's basic financial statements. The accompanying

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supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 16, 2010, on our consideration of Mercer County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, which discusses the following report comments:

- 2009-01 Reconciled Cash Balance For The General Fund Did Not Agree To the 4<sup>th</sup> Quarter Report
- 2009-02 The Fiscal Court Should Improve Purchase And Procurement Procedures
- 2009-03 Purchase Orders Should Be Prepared And Approved For All Expenditures Prior To Making Purchases
- 2009-04 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Bond And Construction Funds
- 2009-05 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules In Accordance With GASB 34 And Department For Local Government Requirements And Inventory Capital Assets Periodically
- 2009-06 All Checks Should Be Accompanied By Supporting Documentation Before Signing
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- 2009-12 The General Fund Budget Does Not Agree With The Original Budget
- 2009-13 The Fiscal Court Should Record Encumbrances Correctly On The Quarterly Financial Statement
- 2009-14 Bonds Of Several Elected Officials And Employees Are Not On File With County Clerk

Respectfully submitted,



Percy & Gray, PSC

Certified Public Accountants

March 16, 2010

MERCER COUNTY OFFICIALS

For The Year Ended June 30, 2009

**Fiscal Court Members:**

John D. Trisler	County Judge/Executive
Ronnie Sims	Magistrate
J.B. Claunch	Magistrate
Larry Peyton	Magistrate
Donnald Webb	Magistrate
Wayne Jackson	Magistrate
Alvis Johnson	Magistrate

**Other Elected Officials:**

Douglas Greenburg	County Attorney
Cleo W. Baker Jr.	Jailer
Chris Horn	County Clerk
Rose Bishop	Circuit Court Clerk
Chris Kehrt	Sheriff
David Best	Property Valuation Administrator
Sonny Ransdell	Coroner

**Appointed Personnel:**

Gayle Horn	County Treasurer
Sandy Sanders	Occupational Tax Collector
Billy Humphey	Road Supervisor

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**MERCER COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2009**



**MERCER COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2009**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 7,215,125
Note Receivable (Hospital Equipment)	61,295
Total Current Assets	<u>7,276,420</u>
Noncurrent Assets:	
Note Receivable (Hospital Equipment)	167,310
Capital Assets - Net of Accumulated Depreciation	
Construction in Progress	926,409
Land and Land Improvements	254,884
Buildings	3,385,929
Equipment	503,265
Vehicles	154,981
Infrastructure	2,073,016
Total Noncurrent Assets	<u>7,465,794</u>
Total Assets	<u>14,742,214</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Bond Anticipation Note	4,000,000
Financing Obligations Payable	361,295
Total Current Liabilities	<u>4,361,295</u>
Noncurrent Liabilities:	
Financing Obligations Payable	1,452,310
Total Noncurrent Liabilities	<u>1,452,310</u>
Total Liabilities	<u>5,813,605</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	1,713,484
Restricted For:	
Capital Projects	2,609,060
Debt Service	54,508
Landfill	10,007
Unrestricted	4,541,550
Total Net Assets	<u><u>\$ 8,928,609</u></u>

The accompanying notes are an integral part of the financial statements.

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**MERCER COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2009**



**MERCER COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

Functions/Programs	Expenses	Program Revenues Received			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government
					Governmental Activities
Governmental Activities:					
General Government	\$ 2,004,514	\$ 61,863	\$ 266,614	\$	\$ (1,676,037)
Protection to Persons and Property	1,393,306	4,325	248,099	80,989	(1,059,893)
General Health and Sanitation	202,860	30,534			(172,326)
Social Services	84,979				(84,979)
Recreation and Culture	177,706				(177,706)
Transportation Facilities and Services	7,132				(7,132)
Roads	1,082,841		1,092,720		9,879
Debt Service	160,787				(160,787)
Capital Projects	125,953				(125,953)
Total Governmental Activities	<u>\$ 5,240,728</u>	<u>\$ 96,722</u>	<u>\$ 1,607,433</u>	<u>\$ 80,989</u>	<u>(3,455,584)</u>
<b>General Revenues:</b>					
Taxes:					
					819,680
					57,364
					129,811
					158,402
					1,186,409
					127,431
					137,049
					256,148
					127,693
					116,346
Total General Revenues and Transfers					<u>3,116,333</u>
Change in Net Assets					(339,251)
Net Assets - Beginning (Restated)					<u>9,267,860</u>
Net Assets - Ending					<u>\$ 8,928,609</u>

The accompanying notes are an integral part of the financial statements.

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**MERCER COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2009**

**MERCER COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2009**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Payroll and Net Profit Tax Fund</b>	<b>Public Properties Corporation- Construction Fund</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 726,003	\$ 1,165,286	\$ 600,860	\$ 1,803,843	\$ 2,609,060
Total Assets	<u>\$ 726,003</u>	<u>\$ 1,165,286</u>	<u>\$ 600,860</u>	<u>\$ 1,803,843</u>	<u>\$ 2,609,060</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	\$ 5,529	\$ 7,401	\$ 5,111	\$ 1,205	\$
Landfill					
Construction					2,609,060
Debt Service					
Unreserved:					
General Fund	720,474				
Special Revenue Funds	<u>                    </u>	<u>1,157,885</u>	<u>595,749</u>	<u>1,802,638</u>	<u>                    </u>
Total Fund Balances	<u>\$ 726,003</u>	<u>\$ 1,165,286</u>	<u>\$ 600,860</u>	<u>\$ 1,803,843</u>	<u>\$ 2,609,060</u>

The accompanying notes are an integral part of the financial statements.

**MERCER COUNTY**  
**BALANCE SHEET-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS**  
**June 30, 2009**  
**(Continued)**

<b>Public Properties Corporation- Debt Service Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
<u>\$ 54,508</u>	<u>\$ 255,565</u>	<u>\$ 7,215,125</u>
<u>\$ 54,508</u>	<u>\$ 255,565</u>	<u>\$ 7,215,125</u>
\$	\$ 227	\$ 19,473
	10,007	10,007
		2,609,060
54,508		54,508
		720,474
	245,331	3,801,603
<u>\$ 54,508</u>	<u>\$ 255,565</u>	<u>\$ 7,215,125</u>

**Reconciliation of Balance Sheet - Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 7,215,125
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	9,935,947
Accumulated Depreciation	(2,637,463)
Receivable -Hospital	228,605
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(1,813,605)
Bond Anticipation Note	(4,000,000)
Net Assets Of Governmental Activities	<u>\$ 8,928,609</u>

The accompanying notes are an integral part of the financial statements.

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**MERCER COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

**MERCER COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Payroll and Net Profit Tax Fund</b>
<b>REVENUES</b>				
Taxes	\$ 1,302,306	\$	\$	\$ 1,313,840
Excess Fees	250,182			
Licenses and Permits	5,967			
Intergovernmental	490,749	971,368	118,819	
Charges for Services	72,176			
Miscellaneous	54,594	13,815	7,429	29,151
Interest	11,193	10,823	14,782	26,012
Total Revenues	<u>2,187,167</u>	<u>996,006</u>	<u>141,030</u>	<u>1,369,003</u>
<b>EXPENDITURES</b>				
General Government	624,612	8,924		41,532
Protection to Persons and Property	597,102	977	806,832	
General Health and Sanitation	197,846	5,014		
Social Services	52,048			
Recreation and Culture	177,706			
Transportation Facilities and Services		7,132		
Roads		726,332		
Other Transportation Facilities and Services		650		
Debt Services	163,787			
Capital Projects	1,754,461	4,500		
Administration	834,970	169,662	41	151
Total Expenditures	<u>4,402,532</u>	<u>923,191</u>	<u>806,873</u>	<u>41,683</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(2,215,365)</u>	<u>72,815</u>	<u>(665,843)</u>	<u>1,327,320</u>
<b>Other Financing Sources (Uses)</b>				
Debt Issuance	1,700,000			
Transfers From Other Funds	643,362		690,000	
Transfers To Other Funds	(690,000)	(43,362)		(600,000)
Total Other Financing Sources (Uses)	<u>1,653,362</u>	<u>(43,362)</u>	<u>690,000</u>	<u>(600,000)</u>
Net Change in Fund Balances	(562,003)	29,453	24,157	727,320
Fund Balances - Beginning (Restated)	1,288,006	1,135,833	576,703	1,076,523
Fund Balances - Ending	<u>\$ 726,003</u>	<u>\$ 1,165,286</u>	<u>\$ 600,860</u>	<u>\$ 1,803,843</u>

The accompanying notes are an integral part of the financial statements.

**MERCER COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>Public Properties Corporation- Construction Fund</b>	<b>Public Properties Corporation- Debt Service Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$	\$		\$ 2,616,146
			250,182
			5,967
		121,352	1,702,288
		18,514	90,690
		44,023	149,012
21,244	989	2,149	87,192
<u>21,244</u>	<u>989</u>	<u>186,038</u>	<u>4,901,477</u>
		227,739	902,807
			1,404,911
			202,860
		2,000	54,048
			177,706
			7,132
			726,332
			650
	112,000		275,787
544,393			2,303,354
	1,000	94	1,005,918
<u>544,393</u>	<u>113,000</u>	<u>229,833</u>	<u>7,061,505</u>
<u>(523,149)</u>	<u>(112,011)</u>	<u>(43,795)</u>	<u>(2,160,028)</u>
			1,700,000
			1,333,362
			<u>(1,333,362)</u>
			<u>1,700,000</u>
(523,149)	(112,011)	(43,795)	(460,028)
3,132,209	166,519	299,360	7,675,153
<u>\$ 2,609,060</u>	<u>\$ 54,508</u>	<u>\$ 255,565</u>	<u>\$ 7,215,125</u>

The accompanying notes are an integral part of the financial statements.

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**MERCER COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**



**MERCER COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

Net Change in Fund Balances - Total Governmental Funds	\$ (460,028)
<p>Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital Outlay	2,645,974
Depreciation Expense	(517,686)
Construction in Progress Placed Into Service	(422,511)
Notes Receivable principal received are receipted in the Governmental Funds as source of current financial resources. These transaction have no effect on net assets and have been eliminated on the statement of activities.	(58,312)
<p>The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while financing obligation and bond principle payments are expensed in the governmental funds as a use of current financial resources. These transactions, however, have no effect on net assets</p>	
Financing Obligations Proceeds	(1,700,000)
Financing Obligations Payments	<u>173,312</u>
Change in Net Assets of Governmental Activities	<u>\$ (339,251)</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES .....	25
NOTE 2.	DEPOSITS .....	31
NOTE 3.	CAPITAL ASSETS.....	32
NOTE 4.	LONG-TERM DEBT .....	25
NOTE 5.	INTEREST ON TERM DEBT AND FINANCING OBLIGATIONS .....	26
NOTE 6.	INTERLOCAL COOPERATION AGREEMENT .....	26
NOTE 7.	SOLID WASTE LANDFILL .....	35
NOTE 8.	EMPLOYEE RETIREMENT SYSTEM.....	35
NOTE 9.	DEFERRED COMPENSATION .....	35
NOTE 10.	INSURANCE .....	36
NOTE 11.	SUBSEQUENT EVENTS .....	36
NOTE 12.	PRIOR PERIOD ADJUSTMENT.....	36



**MERCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Mercer County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Mercer County does not have any discretely presented component units.

**Blended Component Units**

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**MERCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Blended Component Units (Continued)

**Mercer County Public Properties**

The Board of Directors of the Mercer County Public Properties are the members of the Mercer County Fiscal Court. The Corporation was created solely for the benefit of the Fiscal Court per KRS 58.180 to act as an agent in the acquisition and financing of any public project and cannot be sued in its own name without recourse to the Mercer County Fiscal Court. The Fiscal Court has access to the Corporation's resources, is legally obligated to finance the debts, or provide financial support to the corporation. The Corporation is financially accountable to the Fiscal Court. This component unit is blended within the financial statements of the County.

**C. Mercer County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Mercer County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Mercer County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

**MERCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

**Road Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**MERCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Payroll and Net Profit Tax Fund – This fund is for the collection of local payroll taxes and net profit tax. The primary sources of revenue for this fund are payment of taxes for annual profit and payment of payroll taxes.

Public Properties Corporation Debt Service Fund – This fund accounts for the accumulation of resources for the payment of long-term debt principal and interest for the Mercer County Justice Center. The Public Properties Corporation issued debt to build a new courthouse and has entered into a contract, lease and option with the County. The Department for Local Government does not require the fiscal court to report or budget these funds.

Public Properties Corporation Construction Fund – This fund accounts for the funds used for the construction of the Mercer County Justice Center. The Public Properties Corporation is a blended component unit of the County. The Department for Local Government does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund and Landfill Fund.

**Special Revenue Funds:**

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Payroll and Net Profit Tax Fund and Landfill Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**MERCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-45
Buildings and Building Improvements	25,000	10-60
Machinery and Equipment	5,000	3-20
Vehicles	5,000	3-20
Infrastructure	10,000	10-40

**MERCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Long-term Obligations**

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**MERCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**J. Related Organizations and Joint Ventures**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Mercer County Fiscal Court: North Mercer Water District and the Mercer County Public Library.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Mercer County Fiscal Court: Mercer County Industrial Development Authority, Anderson/Dean Park Board, and Greater Harrodsburg/Mercer County Planning and Zoning Commission.

**Note 2. Deposits**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy with regard to custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**MERCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 254,884	\$	\$	\$ 254,884
Construction in Progress	804,527	544,393	(422,511)	926,409
Total Capital Assets Not Being Depreciated	1,059,411	544,393	(422,511)	1,181,293
Capital Assets, Being Depreciated:				
Buildings	1,757,152	2,055,519		3,812,671
Equipment	1,028,902			1,028,902
Vehicles	689,974	46,062		736,036
Infrastructure	3,177,045			3,177,045
Total Capital Assets Being Depreciated	6,653,073	2,101,581		8,754,654
Less Accumulated Depreciation For:				
Buildings	(357,514)	(69,228)		(426,742)
Equipment	(447,521)	(78,116)		(525,637)
Vehicles	(525,706)	(55,349)		(581,055)
Infrastructure	(789,036)	(314,993)		(1,104,029)
Total Accumulated Depreciation	(2,119,777)	(517,686)		(2,637,463)
Total Capital Assets, Being Depreciated, Net	4,533,296	1,583,895		6,117,191
Governmental Activities Capital Assets, Net	\$ 5,592,707	\$ 2,128,288	\$ (422,511)	\$ 7,298,484

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 120,253
Protection to Persons and Property	9,993
Social Services	30,931
Roads, Including Depreciation of General Infrastructure Assets	<u>356,509</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 517,686</u>



**MERCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt**

**A. Bond Anticipation Note-Justice Center**

On March 1, 2008, the Mercer County Public Properties Corporation issued \$4,000,000 of First Mortgage Revenue Bond Anticipation Notes. The proceeds from this issuance will provide interim financing for the cost of development, acquisition and construction of a Justice Center, and will pay the cost of issuance incurred with respect to the issuance of the Notes. The interest rate of 3.5 %, and is payable each March 1 and September 1. The principal is due March 1, 2010. The Bond Anticipation Note outstanding as of June 30, 2009 was \$4,000,000. Future debt service requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 4,000,000	\$ 140,000
Totals	<u>\$ 4,000,000</u>	<u>\$ 140,000</u>

**B. Hospital Equipment/Note Receivable**

In October 2007 Mercer County Fiscal Court entered into a five-year lease agreement with the Kentucky Association of Counties Leasing Trust, in the amount of \$315,000, for the purchase of hospital equipment for use by James B. Haggin Memorial Hospital. Mercer County Fiscal Court and James B. Haggin Memorial Hospital entered into a sublease, with the hospital agreeing to make all payments required by the lease agreement. The interest rate is 4.111%. Principal and interest are due monthly. The balance outstanding as of June 30, 2009 was \$228,605. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 61,295	\$ 8,216
2011	64,431	5,741
2012	67,727	3,141
2013	35,152	554
Totals	<u>\$ 228,605</u>	<u>\$ 17,652</u>

The County has also recorded a note receivable due for the amount of the debt incurred by the County as follows:

Current Portion	\$ 61,295
Long-Term Portion	<u>167,310</u>
Total	<u>\$ 228,605</u>

**MERCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**C. Gateway Building**

In September 2008 Mercer County Fiscal Court entered into a six-year lease agreement with the Kentucky Association of Counties Leasing Trust, in the amount of \$1,700,000 to finance the construction and renovation of an office building to be used by the county. This interest due is a variable. Annual principal payments with monthly interest payments are required. This agreement will cease on September 20, 2013. The balance outstanding as of June 30, 2009 was \$1,585,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 300,000	\$ 56,867
2011	200,000	50,977
2012	200,000	42,901
2013	200,000	34,688
2014	685,000	71,856
Totals	<u>\$ 1,585,000</u>	<u>\$ 257,289</u>

**D. Changes in Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Bond Anticipation Note	\$ 4,000,000		\$	\$ 4,000,000	\$ 4,000,000
Financing Obligations	<u>286,917</u>	<u>1,700,000</u>	<u>173,312</u>	<u>1,813,605</u>	<u>361,295</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 4,286,917</u>	<u>\$ 1,700,000</u>	<u>\$ 173,312</u>	<u>\$ 5,813,605</u>	<u>\$ 4,361,295</u>

**Note 5. Interest on Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities included \$160,787 in interest on financing obligations.

**Note 6. Interlocal Cooperation Agreement**

Mercer County has entered into an Interlocal Cooperation Agreement with Boyle County to share in the cost of a regional jail facility. The facility is owned by Boyle County. Mercer County agreed to pay a percentage, not below 35%, not to exceed 50%, of the yearly costs in exchange for the use of the facility for Mercer County prisoners.

**MERCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 7. Solid Waste Landfill**

Mercer County Fiscal Court (the County) operated a landfill, which ceased operations on June 30, 1992. The County initiated closure operations in April 1991. Closure costs were estimated to be \$52,700 and the County completed the steps necessary to close the landfill. The County believes that it has met all federal, state, and local laws and regulations in regard to the closure of the landfill. Postclosure care consists primarily of groundwater monitoring and landscape maintenance. The County is required to file reports with the appropriate regulatory agencies regarding the findings and groundwater monitoring activities. Postclosure costs are included in the Landfill Fund and for fiscal year ended June 30, 2009, Mercer County expended approximately \$25,000 for postclosure costs. Future costs are estimated to be the same as what was spent in this fiscal year and have been budgeted in the Landfill fund. Inflation, deflation, technology, or applicable laws and regulations could affect these costs.

**Note 8. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent.

The county's contribution for FY 2008 was \$237,903, and FY 2009 was \$214,985.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 9. Deferred Compensation**

The Mercer County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

**MERCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 9. Deferred Compensation (Continued)**

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 10. Insurance**

For the fiscal year ended June 30, 2009, Mercer County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 11. Subsequent Events**

The Mercer County Public Properties Corporation (PPC), an agency and instrumentality of the Mercer County Fiscal Court, issued the First Mortgage Revenue Bonds, Series 2009 for the purposes of acquisition, construction, installation, and equipping of the Mercer County Judicial Center. On August 1, 2009, \$12,385,000 in bonds was issued at various interest rates. The PPC has entered into an agreement to lease the Mercer County Judicial Center to the Fiscal Court for the amount of the bond payments. The Fiscal Court has a sublease with the Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the Mercer County Courthouse Facility. Principal payments are due annually and interest payments are due semi-annually.

**Note 12. Prior Period Adjustment**

The June 30, 2008 net asset balance has been restated to reflect capital assets that previously had the incorrect number of years in service calculated that resulted in a \$3,816 increase in depreciation. Also, the beginning cash and June 30, 2008 net asset balance was increased as follows: the Road Fund, Payroll and Net Profits Tax Fund, and Landfill Fund was adjusted for voided checks in the amount of \$2,473, \$234, and \$61, respectively. The net effect is decrease of the June 30, 2008 net asset balance in the amount of \$1,048.

**MERCER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**



**MERCER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2009**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 1,223,000	\$ 1,223,000	\$ 1,302,306	\$ 79,306
In Lieu Tax Payments	2,000	2,000		(2,000)
Excess Fees	156,406	156,406	250,182	93,776
Licenses and Permits	7,000	7,000	5,967	(1,033)
Intergovernmental Revenue	658,397	658,397	373,291	(285,106)
Charges for Services	65,625	65,625	72,176	6,551
Miscellaneous	60,000	60,000	54,594	(5,406)
Interest	36,000	36,000	11,193	(24,807)
Total Revenues	2,208,428	2,208,428	2,069,709	(138,719)
<b>EXPENDITURES</b>				
General Government	652,629	714,786	624,612	90,174
Protection to Persons and Property	507,103	740,759	597,102	143,657
General Health and Sanitation	407,950	426,514	197,846	228,668
Social Services	65,700	65,800	52,048	13,752
Recreation and Culture	470,250	241,661	177,706	63,955
Debt Services	88,585	113,664	46,329	67,335
Capital Projects	1,757,500	1,773,326	1,754,461	18,865
Administration	1,063,627	936,834	834,970	101,864
Total Expenditures	5,013,344	5,013,344	4,285,074	728,270
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(2,804,916)	(2,804,916)	(2,215,365)	589,551
<b>OTHER FINANCING SOURCES (USES)</b>				
Borrowed Money	1,700,000	1,700,000	1,700,000	
Transfers From Other Funds	1,039,801	1,039,801	643,362	(396,439)
Transfers To Other Funds	(673,331)	(673,331)	(690,000)	(16,669)
Total Other Financing Sources (Uses)	2,066,470	2,066,470	1,653,362	(413,108)
Net Changes in Fund Balance	(738,446)	(738,446)	(562,003)	176,443
Fund Balance - Beginning	738,446	738,446	1,288,006	549,560
Fund Balance - Ending	\$ 0	\$ 0	\$ 726,003	\$ 726,003

**MERCER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 1,179,828	\$ 1,179,828	\$ 971,368	\$ (208,460)
Miscellaneous	11,000	11,000	13,815	2,815
Interest	31,500	31,500	10,823	(20,677)
Total Revenues	1,222,328	1,222,328	996,006	(226,322)
<b>EXPENDITURES</b>				
General Government	9,200	9,794	8,924	870
Protection to Persons and Property		1,000	977	23
General Health and Sanitation	26,900	27,454	5,014	22,440
Transportation Facilities and Services	9,000	9,000	7,132	1,868
Roads	1,141,400	1,253,806	726,332	527,474
Other Transportation Facilities and Services	700	700	650	50
Capital Projects	10,000	10,000	4,500	5,500
Administration	331,250	216,696	169,662	47,034
Total Expenditures	1,528,450	1,528,450	923,191	605,259
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(306,122)	(306,122)	72,815	378,937
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds				
Transfers To Other Funds	(43,362)	(43,362)	(43,362)	
Total Other Financing Sources (Uses)	(43,362)	(43,362)	(43,362)	
Net Changes in Fund Balance	(349,484)	(349,484)	29,453	378,937
Fund Balance - Beginning	349,484	349,484	1,135,833	786,349
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,165,286	\$ 1,165,286



**MERCER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>JAIL FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 113,300	\$ 113,300	\$ 118,819	\$ 5,519
Charges for Services	2,500	2,500		(2,500)
Miscellaneous	1,000	1,000	7,429	6,429
Interest	20,000	20,000	14,782	(5,218)
Total Revenues	136,800	136,800	141,030	4,230
<b>EXPENDITURES</b>				
Protection to Persons and Property	819,881	846,628	806,832	39,796
Administration	30,250	3,503	41	3,462
Total Expenditures	850,131	850,131	806,873	43,258
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(713,331)	(713,331)	(665,843)	47,488
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	673,331	673,331	690,000	16,669
Total Other Financing Sources (Uses)	673,331	673,331	690,000	16,669
Net Changes in Fund Balance	(40,000)	(40,000)	24,157	64,157
Fund Balance - Beginning	40,000	40,000	576,703	536,703
Fund Balance - Ending	\$ 0	\$ 0	\$ 600,860	\$ 600,860

**MERCER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>PAYROLL AND NET PROFIT TAX FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 1,120,000	\$ 1,120,000	\$ 1,313,840	\$ 193,840
Miscellaneous	10,000	10,000	29,151	19,151
Interest	34,000	34,000	26,012	(7,988)
Total Revenues	1,164,000	1,164,000	1,369,003	205,003
<b>EXPENDITURES</b>				
General Government	48,400	48,927	41,532	7,395
Administration	10,500	9,973	151	9,822
Total Expenditures	58,900	58,900	41,683	17,217
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	1,105,100	1,105,100	1,327,320	222,220
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	(1,119,539)	(1,119,539)	(600,000)	519,539
Total Other Financing Sources (Uses)	(1,119,539)	(1,119,539)	(600,000)	519,539
Net Changes in Fund Balances	(14,439)	(14,439)	727,320	741,759
Fund Balances - Beginning	14,439	14,439	1,076,523	1,062,084
Fund Balances - Ending	\$ 0	\$ 0	\$ 1,803,843	\$ 1,803,843

**MERCER COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2009**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Reconciliation of the General Fund**

Total Revenues - Budgetary Basis	\$ 2,069,709
To Account For Debt Paid By Others	<u>117,458</u>
Total Revenues - Modified Cash Basis	<u><u>2,187,167</u></u>
 Total Expenditures - Budgetary Basis	 4,285,074
To Account For Debt Paid By Others	<u>117,458</u>
Total Expenditures - Modified Cash Basis	<u><u>4,402,532</u></u>

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**MERCER COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2009**



**MERCER COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2009**

	<b>LGEA Fund</b>	<b>Landfill Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 245,331	\$ 10,234	\$ 255,565
Total Assets	<u>\$ 245,331</u>	<u>\$ 10,234</u>	<u>\$ 255,565</u>
<b>FUND BALANCES</b>			
Reserved for:			
Encumbrances	\$	\$ 227	\$ 227
Landfill		10,007	10,007
Unreserved:			
Special Revenue Funds	<u>245,331</u>		<u>245,331</u>
Total Fund Balances	<u>\$ 245,331</u>	<u>\$ 10,234</u>	<u>\$ 255,565</u>

The accompanying notes are an integral part of the financial statements.

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**MERCER COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2009**



**MERCER COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2009**

	<b>LGEA Fund</b>	<b>Landfill Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>			
Intergovernmental	\$ 121,352	\$	\$ 121,352
Charges for Services		18,514	18,514
Miscellaneous		44,023	44,023
Interest	1,624	525	2,149
Total Revenues	<u>122,976</u>	<u>63,062</u>	<u>186,038</u>
<b>EXPENDITURES</b>			
General Government	40,000	187,739	227,739
Social Services	2,000		2,000
Administration		94	94
Total Expenditures	<u>42,000</u>	<u>187,833</u>	<u>229,833</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>80,976</u>	<u>(124,771)</u>	<u>(43,795)</u>
Net Change in Fund Balances	80,976	(124,771)	(43,795)
Fund Balances - Beginning	164,355	135,005	299,360
Fund Balances - Ending	<u><u>\$ 245,331</u></u>	<u><u>\$ 10,234</u></u>	<u><u>\$ 255,565</u></u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





## **PEERCY AND GRAY, PSC**

### **Certified Public Accountants**

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The Honorable Milward Dedman, Mercer County Judge/Executive  
The Honorable John D. Trisler, Former Mercer County Judge/Executive  
Members of the Mercer County Fiscal Court

### **Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 16, 2010. Mercer County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Mercer County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mercer County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mercer County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceeding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting as follows: 2009-01, 2009-02, 2009-03, 2009-04, 2009-05, 2009-06, 2009-07, 2009-09, 2009-12, and 2009-13.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above as 2009-02, 2009-04, 2009-05, 2009-06 and 2009-07 to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Mercer County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items: 2009-08, 2009-09, 2009-10, 2009-11, and 2009-14.

Mercer County's response to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit Mercer County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy & Gray, PSC  
Certified Public Accountants

March 16, 2010



**MERCER COUNTY**  
**COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2009**



**MERCER COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2009**

**FINANCIAL STATEMENT FINDINGS**

**2009-01 Reconciled Cash Balance For The General Fund Did Not Agree To The 4<sup>th</sup> Quarter Report**

The reconciled cash balance for the General Fund did not agree to the cash balance on the 4<sup>th</sup> quarter report because one of the Certificates of Deposits and two checks were recorded incorrectly. The Certificate of Deposit was recorded for \$50,000 when the carrying value was \$50,044.51. The two checks that were recorded incorrectly were recorded in the amounts of \$24,188 and \$774, respectively. The actual amounts that should have been recorded were \$28,270 and \$803. The combination of these errors in the cash balance resulted in a decrease in the cash balance of \$4,067.

We recommend that the cash balances on the 4<sup>th</sup> quarter report for each fund be reconciled to the actual cash and certificate of deposit balances for each fund.

*Current County Judge/Executive Milward Dedman's, Former County Judge/Executive John D. Trisler's and County Treasurer Gayle Horn's Response: The two checks recorded incorrectly were corrected by the Treasurer when discovered. The interest of \$44.51 that the Financial Institution mistakenly added back to the face value of the CD instead of including it in the interest check sent to the county will be recorded in the 2010 cash balance.*

**2009-02 The Fiscal Court Should Improve Purchase And Procurement Procedures**

During our review of expenditures we noted numerous deficiencies in purchase and procurement procedures. Supporting documentation such as purchase orders were missing, expenditures were not paid within 30 days, or faxed or copied invoices were present instead of originals. Several vendor invoices were not properly cancelled upon the payment being made. Numerous purchase orders did not have the amounts approved. In addition, on numerous instances, purchases orders were missing altogether. (See Comment 2009-03)

Good internal controls dictate that adequate original supporting documentation be maintained for all receipts and disbursements. All original vendor invoices should be maintained with any supporting documentation. Supporting documentation may include weight tickets, the properly approved purchase order, etc. Additionally, purchase orders should be properly approved and issued by the fiscal court for all expenditures prior to approving services being performed as well as making purchases.

Lack of proper accounting practices and internal control increase the risk that misstatements of financial activity and/or fraud will occur and go undetected by the Fiscal Court. Without proper procedures in place to mitigate this risk, the Fiscal Court is exposing public resources to potential misstatements and/or fraud.

We recommend the County maintain all original vendor invoices including any supporting documentation, approve and issue purchase orders prior to work or services being performed, and cancel all vendor invoices when paid to avoid duplicate payments.

*Current County Judge/Executive Milward Dedman's, Former County Judge/Executive John D. Trisler's and County Treasurer Gayle Horn's Response: Vendor invoices & supporting documentation, & Purchase Orders will be maintained, & cancelled when paid.*

MERCER COUNTY  
 COMMENTS AND RECOMMENDATIONS  
 Fiscal Year Ended June 30, 2009  
 (Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

**2009-03 Purchase Orders Should Be Prepared And Approved For All Expenditures Prior To Making Purchases**

During our testing of expenditures, we noted purchase orders were not issued for all of the expenditures made throughout the fiscal year, and all of the purchase orders that were issued did not contain necessary information such as description, account number, purchase amount, and date until the invoices comes in for the purchase to be paid. In addition, a hand written purchase order listing was prepared but not all expenditures received a purchase order and the listing did not include the date claim was reviewed by Fiscal Court, date paid, and amount paid.

Per the Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual, issued by the Department for Local Government (DLG) "Purchases shall not be made prior to approval by the County Judge/Executive (or designee) or department head. Purchase request shall indicate proper appropriation account number to which the claim will be posted. Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made". In addition, a purchase order journal (listing) should contain a "daily, chronological listing of all purchase orders issued. The listing is the book of original entry for all county Purchases. The journal should indicate the PO number, issue approved by appropriation account code to where the payment will be posted, vendor name, date invoice received, amount of invoice, date claim reviewed by fiscal court, date paid, and amount paid."

We recommend an approved purchase order be obtained prior to items being ordered or services received to determine if adequate funds and budget appropriations are available for the purchase. We also recommend that purchase orders and the purchase order listing include all the necessary information to ensure compliance with the Department for Local Government Policy Manual.

*Current County Judge/Executive Milward Dedman's, Former County Judge/Executive John D. Trisler's and County Treasurer Gayle Horn's Response: The Judge, Treasurer and Staff will develop a process to ensure that Purchase Orders & the listing include the information to ensure compliance with the policy of the Dept. for Local Government.*

**2009-04 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Bond And Construction Funds**

Since the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation (PPC), this entity is reported as a blended component unit of the county. During our review of cash we noted the fiscal court did not maintain proper records for the PPC – Construction Fund and the PPC – Bond Fund. Only two of the bank statements were found, all of the others were not maintained and copies had to be requested. Additionally, the fiscal court did not prepare receipts and disbursement ledgers, bank reconciliations, and financial statements for the fiscal year ended June 30, 2009 on the PPC's two major funds (bond fund and construction fund).

We recommend the fiscal court ensure that all bank statements for the PPC are received, maintain receipts and disbursement ledgers, reconcile the accounts monthly, and prepare fiscal year ending financial statements for both the Construction Fund and Bond Fund.

*Current County Judge/Executive Milward Dedman's, Former County Judge/Executive John D. Trisler's and County Treasurer Gayle Horn's Response: The Treasurer has the bank statements for the Judicial Center & will make sure the appropriate receipts, ledgers, reconciliations & financial statements are organized for these funds.*

MERCER COUNTY  
 COMMENTS AND RECOMMENDATIONS  
 Fiscal Year Ended June 30, 2009  
 (Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

**2009-05 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules In Accordance With GASB 34 And Department For Local Government Requirements And Inventory Capital Assets Periodically**

The Fiscal Court did not have a completed capital asset schedule for fiscal year ended June 30, 2009. A list of capital assets additions and disposals was not properly maintained. A schedule of additions should be maintained as assets are purchased to simplify the process of updating the capital asset schedule. The schedule should include the date the asset is acquired, a description of the asset, the vendor name, and the amount.

The Fiscal Court cannot properly determine insurance needs or if surplus property is owned without proper documentation. The Instructional Guide For Fiscal Court Budget Preparation and State Local Officer Policy Manual, issued by the Department for Local Government (DLG), outline requirements for capital assets. The requirements specifically state: "All contracts, invoices, purchase orders and authorizations, vendor bidding documentation, receipts, deeds, etc. must be maintained/filed with the asset documentation records." Invoices for asset acquisition and invoices for all other disbursements should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. The capital asset listing should be monitored and maintained on a regular basis. As new assets are acquired they should be added to the listing. As equipment is disposed of it should be removed from the listing.

We recommend the Fiscal Court maintain complete and accurate capital assets schedules to comply with GASB 34 requirements and DLG's policy manual. In addition, the Fiscal Court should take a physical inventory of its capital assets on a regular basis to ensure that only active, in-service machinery and equipment are included on the Fiscal Court's financial statements. These steps will ensure that capital assets are properly stated and that depreciation is being calculated from a reliable listing.

*Current County Judge/Executive Milward Dedman's, Former County Judge/Executive John D. Trisler's and County Treasurer Gayle Horn's Response: The staff person responsible for GASB will review past capital assets & future assets to ensure these schedules comply with GASB 34 & DLG's policies. An annual inventory of capital assets will be done.*

**2009-06 All Checks Should Be Accompanied By Supporting Documentation Before Signing**

During the audit, the auditor observed several blank checks that were signed by the County Judge/Executive before the payee was completed. Strong internal controls dictate that checks only be signed when accompanied by supporting documentation.

We recommend that checks be signed only when supporting documentation is submitted.

*Current County Judge/Executive Milward Dedman's, Former County Judge/Executive John D. Trisler's and County Treasurer Gayle Horn's Response: All county checks require the signature of the County Judge and the County Treasurer. On occasion, checks were pre-signed by the County Judge only when he had to be out of the county, & a need might arise. The Judge will appoint a Fiscal Court member to sign checks in his absence, if needed.*

MERCER COUNTY  
 COMMENTS AND RECOMMENDATIONS  
 Fiscal Year Ended June 30, 2009  
 (Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

**2009-07 The Fiscal Court Lacks Adequate Segregation Of Duties Over Expenditure, Receipt, Payroll, And Reconciliation Processes**

The Fiscal Court has a lack of segregation of duties over expenditure, receipt and payroll processes as well as the reconciliation process. The County Treasurer prepares checks, reviews invoices, mails checks, prepares claims lists, posts disbursements to the appropriation ledgers without any other review performed by other persons. The County Treasurer receives the mail, posts receipts to the ledger, prepares bank reconciliations, prepares bank deposits, makes bank deposits, and prepares financial reports. The County Treasurer also performs the entire payroll function including, among other duties, preparing payroll records, preparing payroll checks, and posting payroll expenses. In addition, the County Treasurer creates payroll checks without seeing the actual timesheets from the road department, sheriff's office, etc. Also, departments and individuals maintain their own sick leave and vacation time balances. There are no documented review processes or compensating controls that exist over these areas. The Occupational Tax Administrator opens the mail each day, paper clips the envelopes to the invoices or checks and then turns the checks over to the County Treasurer. No restrictive endorsement is placed on incoming checks until the deposit is prepared.

Adequate segregation of duties would prevent the same person from having a significant role in the receiving, recording, and reporting of receipts, reconciliation of those receipts, review of and preparation of checks for payment, or in the preparation of payroll. In addition, the county does not maintain two sets of appropriation ledgers as required by the uniform system of accounts and therefore could not reconcile them to ensure accuracy and for control purposes. Lack of segregation of duties increases the Fiscal Court's risk of misappropriation of assets, errors, inaccurate financial reporting, and potential fraud risks.

We recommend the Fiscal Court strengthen internal controls by segregating these duties. If segregation of duties is not possible, due to a limited number of staff, strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing source documents. In addition, we recommend that a receipts log be prepared and compared to the deposit ticket and that checks received in the mail be stamped immediately with a restrictive endorsement. We further recommend that the County Treasurer pay bill based on actual original invoices instead of claims lists.

*Current County Judge/Executive Milward Dedman's, Former County Judge/Executive John D. Trisler's and County Treasurer Gayle Horn's Response: During this audit year, Mercer County had a staff consisting of the County Judge/Executive, the County Tax Administrator, and the County Treasurer. This auditor has issued a comment of "Lack of Segregation of Duties." Tight budgets and limited personnel are usually part of the reason for this comment.*

*We have always tried to have more than one person involved in the duties of the office. The Tax Administrator opens all of the mail, then makes copies of all the unpaid invoices, addresses an envelope for mailing the bills, and put those in a tray in the Treasurer's office to await payment. The County Treasurer reviews the invoices by funds, writes checks from six different funds for payment. The Tax Administrator then takes the checkbooks and has always typed the Claims Listing, directly from the checkbooks that is presented to Fiscal Court for approval. She also keeps the Check Register for the County Treasurer by listing all of the checks in numerical order and totaling on a monthly basis. The County Treasurer then uses the Check Register in doing bank reconciliations. The County/Judge Executive also sees all written checks as he signs every check. The Treasurer also uses a restrictive endorsement stamp on checks. The County Treasurer prepares bank deposits, makes bank deposits, and lists all revenue and total expenses in a ledger from which monthly Financial Statements are prepared for the Fiscal Court's approval. This hand kept ledger is used to compare to the computerized*

MERCER COUNTY  
 COMMENTS AND RECOMMENDATIONS  
 Fiscal Year Ended June 30, 2009  
 (Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

**2009-07 The Fiscal Court Lacks Adequate Segregation Of Duties Over Expenditure, Receipt, Payroll, And Reconciliation Processes (Continued)**

*financial system. The County Treasurer has always paid bills from the original invoices, never from the Claims Listing. These invoices are kept in file folders by fund on a monthly invoice.*

*The Tax Administrator receives all revenue for the Payroll & Net Profit Tax Fund, then posts that revenue directly into her computer system. She also prepares all bank deposits in triplicate, then brings the deposits to the County Treasurer who takes the deposits to the bank and keeps a copy of the deposit. The County Treasurer also does the bank reconciliation for the P & NP Tax Fund, and includes that fund in the Financial Statements with the other funds.*

*The County Treasurer serves as the Payroll Clerk for 62 employees. She receives a pay summary from each Department Supervisor that has been made from the time cards, approved by the supervisor, and signed. The time cards and time sheets are retained in the office of the Fiscal Court. She also does the payroll for both the fee offices from time sheets & summary prepared & signed by each Elected Official. The Sheriff and County Clerk are responsible for their own employees and office, and also write a check to the Revolving Payroll Fund for their payroll. After running the computer payroll checks, the Treasurer runs a total payroll report for that pay period and gives it to the Tax Administrator. The County Judge signs all payroll checks, then the tax Administrator tears the checks apart and puts them in separate envelopes for each employee. The tax Administrator reconciles all the bank statements for the Revolving Payroll Fund and keep all the records.*

*(On October 1, 2009, the Fiscal Court hired an assistant to help the County Treasurer. She enters the revenue and expenses into the Financial Accounting Program, takes bank deposits to the banks, mails all approved payments to vendors with a copy of the invoice, is in the process of trying to learn to do payroll, maintains the personnel folders, counts and lists our daily cash receipts from the Transfer Station, and will be filing records also.)*

*As you can see, we do have other persons involved in all of the functions of our offices.*

*Auditor's Response: Auditor agrees that the Tax Administrator does open the mail, however, there is not a review done for legitimacy or accuracy of invoices. As mentioned in the response above the Tax Administrator does make copies of the invoices, however, copies are made for invoices that require copies to be sent back with payment. These copies are sent with the original invoice and envelope to the Treasurer. The copies are not maintained by anyone other than the Treasurer. Someone other than the Treasurer does usually prepare the claims lists; however, in preparation of the claims list, invoices are not compared with the claims list for accuracy, verification, or legitimacy of the claim.*

*In August 2009, the Treasurer performed bank reconciliations for at least seven months that the auditor could verify. This means that the bank accounts of the County were not reconciled in a manner that would levitate risks associated with fraud or banking errors.*

*Based on testing the Judge/Executive does sign all checks, but without anyone other than the Treasurer reviewing the supporting documentation. The Treasurer is the Deputy Judge/Executive and is given the power to act as Judge/Executive and negotiate contracts and sign checks on the Judge/Executive's behalf. Although we did not find an occasion where the Treasurer signed checks on behalf of the Judge/Executive, we did observe on a couple occasions the Treasurer acting with the authority of the Judge/Executive and one document where it was signed by the Treasurer as both "Treasurer and Deputy Judge/Executive".*

MERCER COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2009  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

**2009-07 The Fiscal Court Lacks Adequate Segregation Of Duties Over Expenditure, Receipt, Payroll, And Reconciliation Processes (Continued)**

*Bills were not always paid by original invoices as claimed, during testing procedures; it was found that payments were made based off of faxed copies of invoices which is considered an unacceptable practice.*

*The Tax Administrator does receive all revenue associated with that office, however, the lack of control in that area is due to the Tax Administrator both collecting money and posting it to the tax ledgers and no one being able to verify that what was received was the actual amount deposited. This is the same circumstance in relation to all the other money received by the county except that the Treasurer is the sole person as stated in the County's Response: "The Treasurer prepares bank deposits, and lists all revenue and total expenses in a ledger." This is where the lack of segregation of duties is associated with the receipt process. There is no other person involved and there is no verification of the money actually received is the amount actually deposited.*

*As noted in the comment "The Fiscal Court Should Annually Set And Approve Salaries For All County Employees And Require All Employees To Prepare Timesheets", it stated that four of the nine timesheets that were tested did not have supervisor's signatures on them. For testing, timesheets had to be requested from other departments because they were not present at the Fiscal Court. Timesheets are not recalculated and agreed to the summaries in which the checks are prepared from.*

*This audit was for the fiscal year ended June 30, 2009. The assistant was hired after that period.*

**2009-08 All Invoices Should Be Paid Within Thirty Working Days As Required By KRS 65.140**

During our audit procedures, we noted six expenditures that were not paid within thirty (30) working days as required by KRS 65.140. KRS 65.140 states that "unless the purchaser and vendor otherwise contract, all bills for goods and services shall be paid within (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor".

We recommend the Fiscal Court comply with KRS 65.140 by paying all invoices within thirty (30) working days from receipt of invoice.

*Current County Judge/Executive Milward Dedman's, Former County Judge/Executive John D. Trisler's and County Treasurer Gayle Horn's Response: Occasionally, the Treasurer may not pay an invoice within 30 days until she has confirmed the invoice is correct. Whatever the reason, an explanation will be recorded on the invoice in the future.*



MERCER COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2009  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

**2009-09 The Fiscal Court Should Annually Set And Approve Salaries For All County Employees And Require All Employees To Prepare Timesheets**

During our review of payroll and the fiscal court order books we noted the Fiscal Court did not set and approve annually the salaries of all county employees and include them in the fiscal court order book in accordance with KRS 64.530(1). KRS 64.530(1) states, "... the fiscal court of each county shall fix the compensation of every county officer and employee except the officers named in KRS 64.535 (County Judge/Executive, Jailer who operates a full service jail, and Sheriff) and the county attorney and jailer." In addition, nine employees were tested that are required to maintain timesheets. Of these nine, one employee doesn't maintain a timesheet at all and four other timesheets were missing supervisor's signatures.

We recommend the County Judge Executive's Office annually prepare a list of each employee of the county and include the appropriate hourly rate for hourly employees and monthly or yearly amounts for all salaried employees. This list should be presented to the Fiscal Court for approval and include the approved list in the fiscal court minute book as a matter of public record. We also recommend that timesheets be prepared by all county employees, signed by the employee, reviewed and signed by the supervisor.

*Current County Judge/Executive Milward Dedman's, Former County Judge/Executive John D. Trisler's and County Treasurer Gayle Horn's Response: A listing of the hourly wages & salaries for county employees, by positions, will be presented for approval at the next Fiscal Court meeting. Both the 2009 calendar year & the 2010 calendar will be presented for approval.*

**2009-10 Monthly and Quarterly Reports Are Not Presented Timely**

During the review of the Fiscal Court Minutes, we noted that monthly and quarterly reports are not presented to the Fiscal Court timely. We noted that at times the monthly and quarterly reports were presented in excess of four months late. KRS 68.020 states that the Treasurer's Settlement should be presented within thirty days of year-end. KRS 68.360 states that the monthly financial statement should be presented to the court within ten days of month-end and the quarterly reports should be presented within fifteen days of the end of the quarter.

We recommend that the County adhere to KRS 68.020 and KRS 68.360 by presenting the reports timely.

*Current County Judge/Executive Milward Dedman's, Former County Judge/Executive John D. Trisler's and County Treasurer Gayle Horn's Response: Due to an excessive growth in the Treasurer's work load, these reports have been running behind. However, the Annual Financial Statement was completed, published in the weekly newspaper, & approved by the court within the required 60 day period. The timeliness of the reports will improve as the Treasurer now has help.*

MERCER COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2009  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

**2009-11 Fiscal Court Minutes Should Be Signed, Timely Filed, And Reflect Events That Actually Occurred**

During the review of the Fiscal Court Minutes, we noted that the Fiscal Court Minute Book located in the County Clerk's Office was not up to date. As of March 4, 2010, the last fiscal court meeting proceedings recorded in the Minute Books was October 27, 2009. KRS 67.100 states that fiscal minutes and ordinances be indexed and recorded in the office of the county clerk no later than thirty days after passage and any required approval. According to OAG rulings 78-152 and 78-363, if minutes are taken in longhand, the longhand version should be filed with the typed version as a part of official record. Also, we noted that the claims lists have items on them that were paid after the fiscal court meetings. These do appear to be reoccurring expenses, however, the claims lists should only show claims that were actually approved in the fiscal court meeting.

We recommend that the County adhere to KRS 67.100 and the above mentioned rulings. We further recommend that the Judge/Executive sign fiscal court minutes for authentication purposes.

*Current County Judge/Executive Milward Dedman's, Former County Judge/Executive John D. Trisler's and County Treasurer Gayle Horn's Response: Minutes of the Fiscal Court meetings are typed by the Fiscal Court Clerk & mailed to our members before the next court meeting, at which time they are approved. Attaching all the documentation takes some time before they are filed in the Clerk's office. All minutes are now filed in the Office of the County Clerk and will be filed timely in the future.*

**2009-12 The General Fund Budget Doesn't Agree With The Original Budget**

The General Fund Budget on the original approved county budget for appropriations was \$5,013,344, while the budget presented on the 4<sup>th</sup> Quarter Report shows \$5,041,344. The 4<sup>th</sup> Quarter amount was \$28,000 more than was approved. This resulted in the General Fund Budget being out of balance by the \$28,000.

We recommend that the Quarterly Reports be reviewed so that the proper budgeted amounts represent those that were actually approved.

*Current County Judge/Executive Milward Dedman's, Former County Judge/Executive John D. Trisler's and County Treasurer Gayle Horn's Response: The budget listed in the computer is entered in from the original approved budget. The \$28,000 difference in the totals could have been a typo, but will be corrected.*

MERCER COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2009  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

**2009-13 The Fiscal Court Should Record Encumbrances Correctly On The Quarterly Financial Statement**

During our testing of encumbrances, we noted that encumbrances recorded on the County's quarterly financial statement were not complete. An encumbrance, as defined by the Department for Local Government, is for a good or service received on or before the end of the fiscal year, but not yet paid for. Fifty-three checks we tested in our search for unrecorded liabilities were for goods or services received before July 1, 2009, but were not recorded on an encumbrance listing.

We recommend that the invoices received in July and August be reviewed closely, and if they were for goods or services received before the fiscal year end, they be recorded as encumbrances on the fourth quarter financial statements for budget and cash flow purposes.

*Current County Judge/Executive Milward Dedman's, Former County Judge/Executive John D. Trisler's and County Treasurer Gayle Horn's Response: DLG requires the amount for outstanding purchase orders to be listed on the quarterly report, not the outstanding checks. The Treasurer will require those amounts on the PO's to be entered on all PO's as soon as the purchase invoice is received.*

*Auditor's Response: We understand that outstanding checks are not considered encumbrances as they should have already been expensed at June 30. Additionally, the 53 checks referred to were actually written in July and August of 2009. In circumstances where the Purchase Order System or a Purchase Reacquisition system is correctly used as mentioned in comment that is headed "Purchase Orders Should Be Prepared And Approved For All Expenditures Prior To Making Purchase", the relying on the purchase orders to indentify encumbrances to be listed on the monthly, quarterly, and annual reports would be correct. However, due to the fact that purchase orders are not issued for most of the County's purchases or payments, this method results in understated year-end liabilities in regards to encumbrances.*

**2009-14 Bonds Of Several Elected Officials And Employees Are Not On File With County Clerk**

During the review of bonds, bonds for all officials and employees tested, except for the former Judge/Executive, were not on file with the County Clerk's office and were not presented to the fiscal court as required by KRS.

We recommend that the County adhere to KRS regulations and ensure that bonds are both presented to the fiscal court and filed with the County Clerk's office.

*Current County Judge/Executive Milward Dedman's, Former County Judge/Executive John D. Trisler's and County Treasurer Gayle Horn's Response: All bonds for elected officials will be recorded in the County Clerk's office instead of being maintained in the Treasurer's Office.*

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**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**MERCER COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2009**




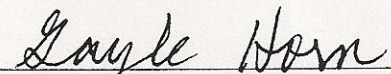
CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE  
PROGRAM

MERCER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2009

The Mercer County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purposes intended as dictated by the applicable Kentucky Revised Statutes.

  
County Judge/Executive

  
County Treasurer

